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Title THE STRUCTURE OF AGRICULTURE: A SUMMARY

BACKGROUND AND GENERAL FINDINGS

PROCUREMENT SECTION
CURRENT SERIAL RECORDS

Farmland prices are rising dramatically. Ownership of America's farmland is being concentrated in fewer and fewer hands. Young families are finding it increasingly difficult to break into farming unless they inherit land. The number of farms are declining and those that remain grow ever larger. Have government programs and policies contributed to this trend? Will it continue? Is it good for the future of America? What, if anything, can and should be done to correct the trend?

U.S. Agriculture Secretary Bob Bergland made those observations and posed those questions to a National Farmers Union audience in March 1979 in a speech in which he pledged to devote the energies and resources of the U.S. Department of Agriculture to find the answers.

After a year-and-a-half effort, which included hearings held around the nation and special research by USDA experts, the answers recently were published in a USDA report, "A Time to Choose: Summary Report on the Structure of Agriculture." In general the report concluded:

- o Present tax policies have a significant effect on farm structure. In practice, they encourage land purchases by larger farmers and wealthy, nonfarm investors seeking a hedge against inflation and to put off tax payments.
- o Technology--the product of past research and education--has had a major impact in that its benefits have been realized sooner by larger farmers.
- o Changes in the agricultural marketing system have affected farm structure. Increasingly, the marketing system is oriented to better serve the larger producers.
- o Farm commodity and credit policies have been of greater benefit to larger farmers, affecting farm structure.

- o Further gains to be realized for society from the shift to larger farm units are small, if they exist at all.
- o Government policies that explicitly or unintentionally encourage this tendency are both inflationary and inefficient use of resources.

Although present farm programs and policies have contributed to the development of large and super-large farms, the report concluded those programs and policies should not be summarily abandoned. Instead, they should be reexamined and redirected so that their benefits are directed away from large farms to flow to small and medium-sized farm units. In particular, changes need to be made in eight policy areas--land ownership, tax policy, commodity policy, agricultural credit, soil and water resources, trade policy, agricultural labor and research and extension--if the current forces exacerbating the unchecked growth in farm size are to be slowed.

THE CURRENT FARM STRUCTURE SITUATION

At present, there are about 2.7 million farms in the U.S. Of that total, about 1.2 million are rural farm residences with annual gross farm sales of less than \$5,000. At the other end of the scale are about 64,000 large farms with annual gross sales of over \$200,000. In between are about 898,000 small farms with annual sales of between \$5,000 to \$40,000 and about 524,000 medium-sized farms with annual sales of \$40,000 to \$200,000.

Each of these categories of farm units has their problems. Large farm units have achieved all technical and virtually all market economies, but can face cash flow problems at times due to their capital-intensive, highly debt-leveraged nature. Farmers in the rural farm residence category generally have adequate income generated by off-farm earnings, but may face a problem in finding an appropriate market for their products.

It is within the small farm group that the remaining poverty is perhaps most concentrated. For this group a combination of strategies becomes important. For example, nonfarm employment opportunities, marketing improvements including cooperative ventures, technical assistance, access to credit, focused research and technology development and new, innovative forms of commodity and farm programs are needed.

Within the medium-sized farm category, there are undoubtedly some part-time farmers near the low end of the bracket. But by and large, farming is the major source of income for these farm families. Studies show that most technical economies of scale are achieved at sizes well within its \$40,000 to \$200,000 bracket. In fact, by the time gross sales reach the neighborhood of \$130,000, the technical economies have been fully obtained and most available market economies probably have been achieved as well.

LAND OWNERSHIP

Who owns America's farmland is one of the crucial factors in the maintenance of our family farming system. As a result, in recent years estate taxes and the transfers of farmland from one generation to the next have become a major issue among farmers. However, government policies affecting land transfers must meet at least two other conditions if we are to maintain our agriculture primarily on the basis of family farm units and offer persons who do not inherit farmland the opportunity to own the land they farm.

In order to allow the entry of new farmers, policies must be shaped so that a significant number of farm heirs not wishing to farm will find it economical to sell their inheritance to people outside the family and so that those persons who are interested in farming, but do not own land, will find it possible to buy land and pay for it from earnings from the land.

Continued persistent general inflation and rapid increases in farmland prices have made it substantially harder for these transfers to take place. Persistent inflation causes some people who might otherwise sell their farm interests to hold on to them. It also spurs other investors, not normally interested in farming, to buy farmland as a hedge against inflation. Tax breaks which make it attractive for both farmer investors and nonfarm investors to purchase farmland further complicate the situation. In fact, nonfarming landlords now control about one-third of America's farmland.

While it may not be possible to radically reverse the trend toward greater separation of farm ownership and operation, higher land prices and increased concentration of farmland into fewer and fewer hands, government policies that accelerated that trend should be corrected. In general, we must remove from government policies the incentives which encourage and reward the acquisition and holding of quantities of farmland greater than that needed for an efficient-sized production unit.

At a minimum, the report said, government should:

- o Conduct agricultural and food programs so that they do not aggravate inflation.
- o Direct the benefits of farm-related programs to those who operate their farms rather than those who simply own the land but do not farm it.
- o Use Farmers Home Administration credit to help young and limited-resource farmers who do not have adequate financial backing to purchase and operate farmland.

- o Facilitate the transfer of efficient-sized farms from one generation to the next, but without exception tax farmland death transfers very progressively, once the amount of land involved is larger than an efficient family-sized unit.
- o Neutralize the tax code's impact on farmland as an investment.

TAX POLICY

Although the Secretary and the Department of Agriculture have little or no direct control over tax policy as it affects farmers and farming, the situation needs to be altered. Studies find that tax policy has had a significant impact on farm structure. Many of our studies suggest that tax provisions give an advantage to large operations and the advantage encourages consolidation of farms and growth in farm size.

As a result, the study recommends that all tax provisions related to farming be carefully reexamined by the Departments of Treasury and Agriculture and the Congress. Tax provisions should be changed so that advantages are provided only to those farms up to the size where economies of size result in efficient farm units. This tax policy examination should focus on the following:

- o Reexamining the special preferences granted in estate tax laws.
- o Removing the allowance of capital gains on assets that have been developed, improved or carried by deductible costs.
- o Reexamining the investment tax credit.
- o Examining the elimination of cash accounting rules for farm operations.
- o Treating agriculture as a special industry.

COMMODITY POLICY

The likelihood U.S. and world agricultural systems in the 1980's will operate in an economic climate in which the supply-demand balance will be more tightly tuned more often than not means the value of both national and international reserve policies will be much greater.

The expected economic situation also means that deficiency payments are less likely to be needed to prevent economic disaster; authorities to take land out of production are much less likely to be needed; comprehensive, all-risk crop insurance will be of even greater importance; and greater attention will have to be given to protecting our basic soil and water resources.

Therefore, the study group recommends the following:

- o Reserve policies for grains should be maintained and extended to other crops, especially oilseeds. The prices at which those reserves reenter the marketplace should be based on the production costs of fully efficient farmers.
- o Deficiency payment programs should be specifically focused and designed solely for the conditions of the intended beneficiaries. Deficiency payments made to the largest farmers--those with gross sales over \$200,000--should be designed to provide a return covering only their shortrun costs. Deficiency payment programs should be modified so that small and medium-sized farm operators receive assistance sufficient to offset size-related disadvantages. Both reserve and regular commodity loan programs, however, should be made available to all farmers.
- o Although the legal authorities to take land out of production temporarily are less likely to be needed, they could be maintained but tied firmly to soil conservation objectives.
- o Agricultural land should be classed according to its use capability and only land farmed in a manner consistent with its capability should be eligible for federal programs.
- o Disaster payment and emergency credit programs should be replaced by the newly-enacted all-risk crop insurance program as soon as possible.
- o Programs and policies for dairy, peanut and tobacco farmers should be modified so that the advantages to large operations and abnormal rents to nonfarming landlords are eliminated.

AGRICULTURAL CREDIT

Private money markets and institutions, including the Farm Credit System banks, generally have served agriculture well. In fact, studies suggest more credit funds might have been available to agriculture than would have been allocated by a purely competitive market. This might have contributed to inefficient resource allocation, inflation in land values, and further concentration of production and landownership.

Many limited-resource borrowers who are not being adequately served by private credit markets are potentially efficient and viable. Assisting them will contribute to the farm sector's longer-term strength. There appears little economic rationale for providing public credit to farms larger than the sizes needed for reasonable efficiency and adequate incomes.

Public credit policies which appear to be consistent with the several goals of food and agricultural policy include:

- o Assuring that agriculture has competitive access to private capital markets at competitive rates. This would involve, on the supply side, assuring that financial rules and regulations are such that agriculture has fair access to the markets and, on the demand side, assuring that economic conditions and institutions in agriculture do not reduce agriculture's ability to compete in the capital markets.
- o Augmenting the workings of private markets to provide direct loans and guaranteed loans specifically to limited-resource and beginning farmers who would not otherwise be able to compete for funds. This would involve refocusing the agricultural programs of the Farmers Home Administration on those who meet credible tests of need.
- o Reducing the growing dependency of farmers on emergency credit. Efficiency and structural goals will be better served by shifting farmers to an actuarially sound disaster-insurance program.

LAND AND WATER CONSERVATION

There can be little doubt that one of the most important tasks before us is maintaining the productive capability of our resource base over the long term. It is also clear that the market may fail to adequately reflect the full costs of resource use over the long run. Intensive production in response to temporary market signals may cause irreparable damage by severely reducing the resource base's productive capability at some future time.

This is an area in which the states should be urged to assume a greater role. Federal policy can provide broad directions, but programs more closely attuned to local needs and conditions are perhaps more appropriate.

Agricultural land should be classed according to its capacity, as a basis for all federal programs, and conservation programs should use the same classification system.

Specific recommendations include:

- o Greater and more careful targeting of federal cost-share funds for conservation--targeting specifically to those areas and farms where the erosion and other resource problems are most severe.
- o Land in the critically high erosion areas now used for crops must be shifted to a less intensive use. Measures must be taken to link federal program benefits to the use of this land in the most socially desirable way.

- o Eliminating aspects of federal policy which encourage the irreversible conversion of prime agricultural lands to other uses.
- o Obtaining legislation to allow more realistic pricing of water. Like energy, as long as water's price is not reflective of its value in use, conservation will be inadequate. Structural concerns should be addressed specifically in pricing policy, and the original intent of legislation, to direct benefits to moderate-sized operations, should be maintained.

TRADE POLICY

U.S. trade policy in the future inevitably will focus more and more on allocating limited supplies between domestic and foreign customers, either through restrictive export policies or higher prices.

The issues in this area are profound and likely to generate heated controversies. Nevertheless, the choices will confront us.

Our general recommendation is that, in formulating agricultural trade policies and programs, full recognition be given to the fact that they will operate in a unstable, protectionist world market, making our less-protected domestic market extremely vulnerable to production and policy changes.

The specific recommendations are:

- o Clarify U.S. policies with respect to the allocation of short supplies of agricultural commodities.
- o Encourage a stronger system of internationally-managed, but nationally-owned food reserves designed to stabilize world markets.
- o Advocate strongly a more equitable international sharing of food-aid responsibilities by urging larger food-aid donations from traditional donor countries as well as the high-income food importing countries. Closely associate with this initiative a greater effort on our part to use a larger proportion of U.S. food aid to alleviate emergency needs in the low-income developing countries.
- o Focus more U.S. international development assistance on expanding indigenous food production and improving food-security facilities in the lowest-income developing countries.
- o Focus U.S. agricultural export promotion programs and trade initiatives on those products that bring the least pressure on our resource base and which offer the highest value-added return to farmers and the general economy.

AGRICULTURAL LABOR

Programs for the farm sector have always been concerned with equity, mainly in relation to farm operators. Another participant group in the farm sector, long neglected and only recently gaining recognition as it develops organizational and political strength, is farm labor. Once viewed solely as a production input, farm labor must in the future be accorded a higher priority in our policy concerns. This will require greater coordination of agricultural labor-related issues and programs among USDA, the Labor Department and other agencies with an interest in them.

The recommendations in this area include:

- o Reexamining the Labor Department's migrant and seasonal farmworker training programs with the objective of improving long-term planning and development activities essential to promoting more viable agricultural careers for farmworkers.
- o Developing educational programs for employers, farm-labor contractors, worker organizations, and others to improve personnel-management practices in agriculture and develop less casual labor markets.
- o Focusing a portion of USDA's rural-development activities on programs to enhance the stability of employment for seasonal agricultural workers in areas where their numbers are significant.
- o Influencing the direction of research and development in agricultural technology and management to improve agricultural employment conditions.
- o Assuring that firms that are in compliance with the law are not competitively undercut by firms able to profit from unofficially sanctioned exemptions from the law.

RESEARCH AND EXTENSION

Technological change has a major influence on the structure of agriculture. It is also an important source of improvement in welfare and living conditions. The question is not whether to support development of new technology, but rather how to better determine what types of technological development deserve public priority.

Increasing demand for agricultural products, increasing costs for energy and other inputs, natural-resource constraints, and changing social and personal values are all intensifying the demands on agricultural science. How these problems are approached scientifically will affect the technology and, in turn, the structure of agriculture.

The assessment of the probable future suggests that there is little to be gained for society in the continued displacement of either farm operators or farmworkers, and that underwriting this displacement therefore should not be a focus of publicly supported technological research and development.

Beyond that point at which relative efficiency is achieved, such displacement does not increase the overall quantity of production nor does it improve the quality of food. It only allows one farmer to work a larger parcel of land, increasing the sector-wide incentive for growth and consolidation of farms. Agricultural research, therefore, should be increasingly directed to the particular problems of the small and medium-sized farms.

The specific recommendations are:

- o Reorient research and extension strategies to develop new technologies and approaches of use to smaller and medium-sized farms to promote the maintenance of a diverse, resilient, and competitive agricultural system. The social and economic payoff from further development and promotion of labor-saving technology for the agricultural sector is limited.
- o Research and extension programs should give greater attention to the problems of marketing, transporting, and processing the agricultural products of smaller farms.
- o The federal government, states, and the private sector should be mindful of the roles they play and the areas in which they have comparative research advantages. Improved planning, decision, and management systems for food and agricultural science--which give emphasis to long-term planning and funding horizons, improved coordination, and more pluralistic participation and problem-solving are needed. They are necessary to ensure that critical long-term problems are adequately addressed and that more balanced approaches are taken toward addressing the broadening social, economic and environmental concerns affected by research and extension.
- o Research should reassess and offer alternatives to current chemical-, capital-, and energy-intensive strategies for enhancing U.S. agricultural productivity and efficiency. Fundamental long-term research, to find new paths to appropriate technological developments, is essential for successful adjustment to new pressures.
- o Greater attention by food and agricultural science to the major deficiencies in our understanding of environmental, health, and the nutritional hazards and benefits from food-production and processing practices.

CONCLUSION

U.S. agriculture is today at a crossroads. The time of chronic surpluses is behind it; a time of growing demand and tighter supplies lies ahead. We are now presented with an opportunity for reflection and the choice of policies appropriate for guiding us to the end of the century. The choices before us are not always between stark alternatives, as they often seemed to be in the past. We have seen, for example, that many smaller producers today do not necessarily have to choose between rural poverty or moving to the cities. Instead, many are able to stay in rural communities by combining farm and nonfarm incomes. Similarly, we as a society do not have to choose between efficiency--achieved in the past through farm consolidation--and stable farm numbers. We have largely realized the first goal and can now afford to devote more attention to the second.

Continuing existing policies and programs without change will almost certainly mean that present trends will continue. We will see continuing growth in farm sizes, further declines in farm numbers, greater economic vulnerability among our larger producers, and mounting resource-use problems.

It has become evident that powerful forces underlie the trend toward concentration, and to slow those trends will require major changes in our policies. More than a single change in a policy or program is required. Instead, it requires numerous changes across several areas, all of which must be more carefully coordinated and harmonized than ever before to avoid one offsetting the other. If the recommended changes in the tax code, commodity, credit, resource-conservation, research and other programs are made, there will be a slowing of the trend towards greater concentration and a better chance of realizing the broad set of goals which are possible. We are convinced that slowing this trend will be beneficial to our farmers and consumers, and in the best long-term interests of our nation.

Government policies are not, of course, the only forces propelling current trend. But, they are among the most important and realistically, among the few we can control. Failure to act will amount to a decision to allow the trend to extend into the future regardless of how conditions may change, and regardless of the cost of inequity. It will amount to a decision accepting greater separation of the business of farming--ownership, management, and operation--and greater concentration of landownership across fewer and fewer people, violating a long-held principle and relegating the concepts behind "the family farm" to museum relics.

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Copies of the full report, "A Time to Choose: Summary Report on the Structure of Agriculture," can be obtained by contacting the News Center, U.S. Department of Agriculture, Washington, D.C. 20250. Telephone (202) 447-4026.

